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Ms. Maria Kachadoorian
Director of Finance
City of Chula Vista
276 Fourth Street
Chula Vista, CA 91910

Dear Ms. Kachadoorian:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chula Vista, California (City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 21, 2009. In planning and performing our audit, we considered the City of Chula Vista's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. We noted certain matters involving the internal control over financial reporting and its operation that we considered to be significant deficiencies under auditing standards generally accepted in the United States of America. Those significant deficiencies were reported to the City Council in a separate letter dated January 21, 2009. We also noted other items which are discussed below.

Risk Assessment and Monitoring Over Financial Reporting

Comment

The City has a fiduciary responsibility as a steward of public funds. In order to fulfill this responsibility, the City has implemented internal controls that serve as the first line of defense in safeguarding assets. Additionally, these controls are designed to ensure: (1) effective and efficient operations, (2) reliable financial reporting and (3) compliance with applicable laws and regulations.

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) has established a nationally recognized framework for internal control in its *Internal Control- Integrated Framework and its related Guidance for Smaller Public Companies: Reporting on Internal Controls over Financial Reporting.* The COSO framework establishes five elements of internal control: (1) Control Environment; (2) Risk Assessment; (3) Control Activities; (4) Information and Communication; and (5) Monitoring. Risk Assessment and Monitoring are integral parts of internal control and management should periodically evaluate the risks and monitor the changes facing the City. This process involves evaluating both previously identified risks and potential new risk and providing assurance that (1) controls are designed properly to address significant risks and (2) controls are operating effectively.

Mgt. Ltr.
3/27/09

The Auditing Standards Board (ASB) of the America Institute of Certified Public Accountant's (AICPA) recently adopted a set of eight Statements of Auditing Standards (SAS No.104 through 111), which, among other things, require auditors to assess an organization's design of controls and determine whether the controls have been placed in operation for all elements of internal control over financial reporting. If controls do not exist, are poorly designed or not operating effectively, the auditor must evaluate the control deficiency and report the deficiency to management, including whether the control deficiency is a significant deficiency or material weaknesses.

The City's management has documented its internal controls over most significant accounting areas (e.g. cash receipts, cash disbursements). In addition, management meets monthly and prepares reports to the City Council to discuss operational matters. Although the management has initiated the risk assessment process, there is no formal monitoring plan to ensure procedures are adequate and effective to continually mitigate potential risk to financial reporting.

Recommendation

We recommend the City to review and expand its existing internal control assessment process and formalize a comprehensive risk assessment plan, which would include monitoring the adequacy and effectiveness of internal control procedures. This risk should be evaluated at least annually to consider any changes to the City's operating environments.

Management Response

Management concurs with the finding and will take steps to implement the recommendation.

This comment is a result of the American Institute of CPAs new risk auditing standards 104 to 111 that requires more formalized monitoring of internal control risks that were implemented for this audit period. This recommendation is closely related to the duties and responsibilities of an internal audit function. The Finance Department has no resources to implement an internal audit function at this time. Due to the current budget challenges it is unlikely that the City will be able to hire internal audit staff in the near future. However, we are evaluating new compliance monitoring software that will enable management to monitor internal control issues throughout the City.

Journal Entries

Comment

During our review of journal entries, we noted a journal entry to post deferred compensation contributions and losses was posted incorrectly, the debits and credits were reversed and the error was not caught during the review process.

Recommendation

We recommend the City develop procedures to improve their review process and review the journal entries more closely to ensure that journal entries are correct prior to posting.

Management Response

Each staff person's respective supervisor reviews all journal entries for accuracy. This error was discovered during the auditor's interim testwork that occurred during April 2008. This error would have been detected at the close of the fiscal year during our annual reconciliation of this account.

Purchase Requisitions

Comment

During our review of internal controls over cash disbursements we noted no documented approval from department management on purchase requisitions.

Recommendation

We recommend the City establish policies and procedures to ensure that purchase requisitions are properly approved by the authorized personnel.

Management Response

Management concurs with the finding and is preparing a revision to the purchasing manual and soon to be implemented software upgrade that will implement the auditor's recommendation.

Currently, every designated departmental purchasing liaison has been authorized by their department head or designee to process requisitions and other purchasing requests. This practice is evidenced by the "Authorized Signature Form" that is completed and approved by the Department Head and kept on file in the Finance Department. However, the requisition form reviewed by the auditor does not have an approving signature block on the requisition. This is because it is prepared electronically within the financial management software. The system is due to be upgraded and will provide a means to electronically approve the request. In the meantime, Purchasing staff will incorporate a signature block on the "Requisition Checklist" that will require an approving signature in order to provide the paper trail the auditor is recommending.

Information Technology

Comment

During our review of the City's information technology, we noted the following:

- The City did not have a documented backup or recovery retention plan.
- The City did not have a formalized disaster recovery plan.
- There is no alternative operational site (secondary computer room/hot site) identified should the primary computer room become unavailable.
- The City does not have an intrusion detection system.

Recommendation

Backup \ Recovery & Retention

We recommend management establish procedures which include documenting the backup and recovery process, including a data retention policy. The policy and procedure should formalize the current informal process and should include a full schedule of the backups performed, how long they are retained and how they are tested. In a decentralized operation this is especially critical. The recovery process should be tested on a monthly basis for file restoration and semi-annually or annually for complete application recovery.

Disaster Recovery Planning

We recommend management continue to develop and test a formalized disaster recovery plan (DRP). During times of major disaster or other unplanned service outages (minor disasters), a well documented plan would benefit the City greatly. The plan should include but not be limited to the following key fundamentals.

- Understanding an organization's activities \ operations and how all of its resources are interconnected
- Assessing an organization's vulnerability in all areas, including operating procedures, physical space and equipment, data integrity and contingency planning
- Understanding how all levels of the organization would be affected in the event of a disaster
- Developing a short-term recovery plan
- Developing a long-term recovery plan, including how to return to normal business operations and prioritizing the order of functions that are resumed
- Testing and consistently maintaining and updating the plan as the business changes.
- Annual testing of the disaster recovery plan.

Alternative Operational Site

The majority of all critical servers are located in a central data center at the Civic Center or Police Department, both of which are located within the same geographic vicinity. We recommend that an additional data center be setup in a current facility or at a facility within the City's current geographic boundaries, however, the second site be outside the general vicinity of the downtown area.

Intrusion Detection System

We recommend the Information Technology Department investigate deploying technologies like an intrusion detection system to ensure the safety of data and reliability of systems for police, fire, finance and other vital computing systems. An intrusion detection system would provide staff with advanced notice of network intrusions\threats from either internal and or external sources.

Management Responses

Backup \ Recovery & Retention

The City does have backup and recovery standards but the plan is not in a formalized written format. Information Technology Department staff will have this formally documented by 12/31/09.

Disaster Recovery Planning

Information Technology Department staff will work on a plan with the goal of having it completed by 12/31/09.

Alternative Operational Site

The backup location will be at the Corporation Yard. City staff will work to finalize this item by 12/31/09

Intrusion Detection System

Information Technology Department staff has reviewed this type of software and were prepared to implement it last fiscal year. The cost for the software is approximately $30,000 and had been budgeted as a Capital Improvement Project for the software. Due to budget constraints the project was closed out. The Information Technology Department will bring this request forward in the next budget cycle.

We have reviewed the status of the recommendations contained in our letter to the City dated December 18, 2007, and found that all of our suggestions have been implemented, except for:

Retention Payable

Comment

During our testwork of current liabilities, we noted the City does not record any contract retention liability. Government accounting standards require that the current portion of retention payable should be recorded in the fund financial statements and the long-term portion should be recorded in the government-wide financial statements.

Recommendation

We recommend the City to maintain a schedule of retentions payable and record them on a regular basis or at minimum at year end.

Management Response

Management concurs with the finding. Due to staffing shortages and the manual process of compiling the retention payable took longer than anticipated and therefore was recorded late at fiscal year end.

The Public Works Department administers the construction contracts that require the 10% retention amount that is required to be withheld from each payment until the project has been deemed completed. The Public Works Department is implementing new software that will allow them to enter construction contract information in their database and will include retentions withheld from Contractor payments. The report will be provided to the Finance Department during year-end closing and be used to post the retention liability in a timely manner.

The City's management responses to our comments resulting from our audit are disclosed above. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the City of Chula Vista and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation for the courtesy and assistance extended to us during our audit by all of your staff.

We would be pleased to discuss with you at your convenience the matters contained in this letter or any other matters which you would like to discuss.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

January 21, 2009